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MADSEN
RED LAKE GOLD
MINES,

L I M I T E D

ANNUAL REPORT
1978

ANNUAL MEETING MAY 8, 1979



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MADSEN RED LAKE GOLD MINES, LIMITED

directors

PAUL H. McCLOSKEY	Toronto
<i>Mining Executive</i>	
HUGH H. MACKAY	Rothsay, N.B.
<i>Director of Pitfield, Mackay, Ross & Company Limited, Investment Dealers</i>	
FOSTER W. HEWITT	Toronto
<i>Radio Executive, President of Radio Station CKFH</i>	
A. D. HELLENS	Toronto
<i>Mining Executive</i>	
R. DUNCAN McCLOSKEY	Toronto
<i>Mining Executive</i>	

officers

PAUL H. McCLOSKEY, <i>President</i>	Toronto
FOSTER W. HEWITT, <i>Vice-President</i>	Toronto
S. CZARNECKI, <i>Secretary-Treasurer</i>	Toronto
R. DUNCAN McCLOSKEY, <i>Assistant to Secretary-Treasurer</i>	Toronto

MADSEN RED LAKE GOLD MINES, LIMITED

HEAD OFFICE 11 Adelaide St. W., Suite 800
Toronto, Canada M5H 1L9

TRANSFER AGENTS AND REGISTRARS

GUARANTY TRUST COMPANY OF CANADA
88 University Avenue, 5th floor, Toronto, Canada M5J 1T8
427 St. James Street West, Montreal, Canada
THE BANK OF NEW YORK 48 Wall Street, New York 10015, N.Y.

AUDITORS

JARRETT, GOOLD & ELLIOTT Suite 1406 - Royal Trust Tower
Box 11, Toronto-Dominion Centre
Toronto, Ontario M5K 1A7

LISTED

TORONTO STOCK EXCHANGE 234 Bay Street
Toronto, Canada M5J 1R1

REPORT OF THE DIRECTORS

To The Shareholders:

Your Directors submit the 43rd Annual Report which includes the Auditors' financial statement, covering the year ended December 31, 1978.

Under the terms of an agreement between Madsen and Bulora Corporation Limited, dated September 14, 1974, covering the sale to Bulora of the Company's mine and all adjacent mining properties and all mine buildings and mine equipment in the Red Lake area of Ontario, Madsen was to receive \$1,700,000 in cash and a royalty of 15% of the net proceeds received by Bulora from the operation of the Madsen mine. At December 31, 1978, \$1,500,225 of the \$1,700,000 was paid, leaving an outstanding balance of \$199,775 excluding interest and other charges also covered by the Debenture. It is expected that part of the outstanding balance owed by Bulora will be paid in 1979 through funds now held by Coopers & Lybrand Ltd., court appointed Receiver and Manager of Bulora Corporation Limited.

Net earnings after extraordinary item (Note 5) were \$17,047 equal to \$.006 per share compared with \$.022 per share for the year 1977.

Working capital was \$2,120,926 at December 31, 1978, compared to \$2,646,670 at December 31, 1977, reflecting a decrease of \$525,744 for the year 1978, due to oil and gas exploration expenses and purchase of additional Madsen shares.

Madsen purchased an additional 205,475 shares, totalling 530,000 shares of its own securities during the year at an average price of 64¢ per share, reflecting the confidence of the Directors in the future of the Company.

Madsen maintained its interest in Baffinland Iron Mines during the year at 21%. Baffinland Iron Mines owns large iron ore deposits on Baffin Island. Although not yet under development, the deposits will have substantial future value.

Madsen held on to its freehold land holdings in Saskatchewan in 1978 to await the outcome of the Provincial election. Due to the results, Madsen intends to drop its holdings as management feels that the political climate in that province discourages development of the property.

Madsen participated in two joint ventures with Signalta Resources Limited in 1978. Madsen's interest after payout in the first programme is 4.5833%, the results of

which are seven potential gas wells from eleven holes drilled. Proven and probable reserves of this programme is estimated at 15 Bcf. of gas. Two wells are expected to come on stream in 1979.

There have been eleven holes drilled to date in the second Signalta Joint Venture. Madsen has a 11.1111% interest in a well that tested 4,325 mcfd. and started producing in November 1978. The other ten holes resulted in four more gas wells that are expected to come on stream in the fall of 1979. Madsen's interest after payout in the latter mentioned wells is 5.5555%. Estimated reserves of the five successful wells is 12 Bcf. Madsen's direct interest in Signalta's programme to date is estimated at 2 Bcf.

Madsen participated in the 1978 Zephyr Resources Ltd. Joint Venture and funded working interests in the drilling of thirty-seven wells in Alberta and British Columbia, resulting in sixteen potential gas wells, eight oil wells, one oil and gas well, six dry holes and two suspended holes with four holes drilling at the time of this report. Two oil wells went on stream in 1978 and it is expected that all the oil wells and one gas well with an estimated 11.73 Bcf. reserves will be on stream in 1979. Madsen's interest in this programme is 2%. No estimate of total reserves of this programme is presently available.

Madsen is participating in a farm-in with American Petrofina in its Palo Duro Basin project in Texas. The Palo Duro Basin is the last large relatively unexplored basin in Texas. At the time of this report the first well was drilling at 7,000 feet with no test results as yet. Madsen's net interest after payout will be 1.875%.

There was no change with respect to Lassie Red Lake Gold Mines Limited in the year 1978.

The Company will continue to increase its investment portfolio in the natural resource industry and will consider participation, either directly or through operating companies, in worthwhile ventures.

Respectfully submitted,

P. H. McCLOSKEY,
President.

Toronto, Ontario,
March 22, 1979.

BALANCE SHEET

December 31, 1978

ASSETS

	1978	1977
CURRENT ASSETS		
Cash	\$ 10,732	\$ 83,727
Short-term deposits, at cost	682,675	1,325,044
(Market value \$1,085,670; 1977 \$1,493,157)		
Accounts receivable	7,141	21,496
Marketable securities, at cost (note 3)	1,561,090	1,239,108
(Market value \$2,518,034; 1977 \$1,550,832)		
	<u>2,261,638</u>	<u>2,669,375</u>
NOTE RECEIVABLE (note 2)	199,775	199,775
SHARES IN COMPANIES, at cost		
Baffinland Iron Mines Limited		
703,388 shares	582,279	582,279
Other	<u>1,251</u>	<u>44,834</u>
	583,530	627,113
FIXED ASSETS		
Furniture and equipment	22,953	22,775
Accumulated depreciation	<u>20,925</u>	<u>20,418</u>
	2,028	2,357
MINING PROPERTIES		
Mining claims	26,953	26,953
Deferred exploration expenditure	<u>431,250</u>	<u>108,038</u>
	458,203	134,991
	<u>\$3,505,174</u>	<u>\$3,633,611</u>

Approved by the Board:

P. H. McCLOSKEY, Director.

A. D. HELLENS, Director.

MADSEN RED LAKE GOLD MINES, LIMITED

(Incorporated under the laws of Ontario)

LIABILITIES

	1978	1977
CURRENT LIABILITIES		
Bank loan (note 3)	\$ 120,000	
Accounts payable	20,712	\$ 12,827
Taxes payable		9,878
	140,712	22,705
DEFERRED INCOME TAXES	44,000	44,000
	184,712	66,705

SHAREHOLDERS' EQUITY

SHARE CAPITAL (note 4)	1,806,792	1,979,497
RETAINED EARNINGS	1,513,670	1,587,409
	3,320,462	3,566,906
	<u>\$3,505,174</u>	<u>\$3,633,611</u>

AUDITORS' REPORT

To the Shareholders,
Madsen Red Lake Gold Mines, Limited.

We have examined the balance sheet of Madsen Red Lake Gold Mines, Limited as at December 31, 1978 and the statements of retained earnings, earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario,
January 22, 1979.

JARRETT, GOOLD & ELLIOTT
Chartered Accountants

MADSEN RED LAKE GOLD MINES, LIMITED

STATEMENT OF RETAINED EARNINGS

for the year ended December 31, 1978

	1978	1977
Balance, beginning of year		
As previously reported	\$1,597,287	\$1,525,786
Adjustment of a prior year's income taxes (note 8)	9,878	9,878
As restated	1,587,409	1,515,908
Net earnings	17,047	71,501
	1,604,456	1,587,409
Dividends	90,786	
Balance, end of year	<u>\$1,513,670</u>	<u>\$1,587,409</u>

STATEMENT OF EARNINGS

for the year ended December 31, 1978

	1978	1977
Investment income	\$ 136,299	\$ 155,487
Administration expense	109,595	93,796
Depreciation	507	590
	110,102	94,386
Earnings before income taxes and extraordinary item	26,197	61,101
Income taxes		
Current	14,000	39,300
Deferred		(14,000)
	14,000	25,300
Earnings before extraordinary item	12,197	35,801
Extraordinary item (note 5)	4,850	35,700
Net earnings	<u>\$ 17,047</u>	<u>\$ 71,501</u>
Earnings per share (weighted average)		
before extraordinary item	<u>\$ 0.004</u>	<u>\$ 0.011</u>
Net earnings	<u>\$ 0.006</u>	<u>\$ 0.022</u>

MADSEN RED LAKE GOLD MINES, LIMITED

STATEMENT OF CHANGES IN FINANCIAL POSITION

for the year ended December 31, 1978

	1978	1977
SOURCE OF WORKING CAPITAL		
From operations		
Earnings before extraordinary item	\$ 12,197	\$ 35,801
Items not requiring an outlay of working capital		
Depreciation and amortization	507	590
Deferred income taxes		(14,000)
	<u>12,704</u>	<u>22,391</u>
Reclassification of investment in shares in companies as current	43,583	
Reduction of income taxes (note 5)	4,850	35,700
Decrease in note receivable		49,928
	<u>61,137</u>	<u>108,019</u>
APPLICATION OF WORKING CAPITAL		
Purchase of fixed assets	178	2,067
Outside exploration	323,212	96,648
Increase in investment in shares of companies		5,827
Purchase of 205,475 (1977 112,300) shares of share capital of		
Company	172,705	60,535
Dividends	90,786	
Prior period adjustment		9,878
	<u>586,881</u>	<u>174,955</u>
DECREASE IN WORKING CAPITAL	525,744	66,936
WORKING CAPITAL, BEGINNING OF YEAR	<u>2,646,670</u>	<u>2,713,606</u>
WORKING CAPITAL, END OF YEAR	<u>\$2,120,926</u>	<u>\$2,646,670</u>
REPRESENTED BY		
Current assets	\$2,261,638	\$2,669,375
Current liabilities	140,712	22,705
Working capital	<u>\$2,120,926</u>	<u>\$2,646,670</u>

MADSEN RED LAKE GOLD MINES, LIMITED

NOTES TO FINANCIAL STATEMENTS

December 31, 1978

1. Significant accounting policies

(a) *Short-term deposits and marketable securities*

The company carries its short-term deposits and marketable securities, at cost.

(b) *Shares in Baffinland Iron Mines Limited*

The Company carries its interest in Baffinland Iron Mines Limited, a company engaged in the exploration and development of an iron ore property, at cost. Realization of an income on or recovery of the cost of these shares is subject to the development and production in sufficient quantity of ore of economic value.

(c) *Fixed assets*

Fixed assets are stated at cost. Depreciation is provided over the estimated useful lives of the fixed assets on the diminishing-balance basis at an annual rate of 20%.

(d) *Mining properties and deferred exploration*

The Company carries its mining properties at cost. The Company defers the cost of its exploration expenditure and carries it as an asset until the results of the projects are known. If a project is successful the related exploration expenditures are amortized over a period of years, pro rata to anticipated income. If the project is unsuccessful, the exploration expenditure and mining property are written off.

(e) *Income taxes*

The Company uses the tax allocation method of accounting for taxes on income. Under this method, timing differences between reported income and taxable income result in deferred income taxes. Deferred income taxes arise mainly from the claiming of a reserve against unpaid amounts arising from the sale of its mining property.

(f) *Foreign currency translation*

Short-term deposits, marketable securities, long-term assets and long-term liabilities are translated at the approximate exchange rates at the time of acquisition. Other current assets and current liabilities are translated into Canadian dollars at the approximate exchange rate at December 31, 1978.

Revenues and expenses have been translated at rates prevailing during the year.

2. Note receivable

The note receivable bearing interest at 10% per annum matured March 28, 1977 and interest has been paid to that date. No interest has been accrued since March 28, 1977. The principal amount is secured by a first mortgage charge against certain mining properties and equipment of the mortgagor.

3. Bank loan

The bank loan is secured by pledge of certain marketable securities.

4. Share capital

The share capital of the Company consists of:

Authorized

5,500,000 shares of no par value

Issued

		1978	
		Shares	Consideration
Balance, beginning of year		3,556,196	\$2,144,035
Purchase by the Company			
Balance, January 1		324,525	164,538
Purchase during year			
January 983	170,000	141,194
January 2382	5,475	4,511
August 3090	30,000	27,000
		<u>205,475</u>	<u>172,705</u>
		530,000	337,243
Balance, end of year		<u>3,026,196</u>	<u>\$1,806,792</u>

5. Extraordinary item

The credit of \$4,850 (\$35,700 in 1977) arises from the reduction in income taxes due to a claim for capital cost allowance in excess of the depreciation included in costs and expenses, and a deduction of mining exploration expenditure which was carried as a deferred expenditure.

6. Statutory information

The aggregate direct remuneration paid to directors and senior officers (as defined in The Business Corporations Act, Ontario), was \$41,398 in 1978 and \$39,410 in 1977.

7. Values

The costs of mining claims and deferred exploration expenditures do not necessarily reflect present or future values.

8. Restatement of retained earnings

During 1978, the Company was re-assessed for income taxes applicable to 1974. Accordingly, the balance of retained earnings as at January 1, 1977 has been restated from amounts previously reported to reflect the retroactive charge of \$9,878.

COMPARATIVE FINANCIAL SUMMARY

	December 31	
	1978	1977
Earnings before extraordinary item	\$ 12,197	\$ 35,801
Net earnings (loss)	\$ 17,047	\$ 71,501
Earnings before extraordinary item per share	—	—
Net earnings (loss) per share	\$.006	\$.02
Dividend paid	\$ 90,786	—
Current assets	\$ 2,261,638	\$ 2,669,375
Current liabilities	\$ 140,712	\$ 22,705
Working capital	\$ 2,120,926	\$ 2,646,670
Shares issued	—	—

